


Deutsche Rohstoff Reduce

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Germany | Oil & gas

 Beta Profile:  **MOMENTUM**
MCap: EUR163.6m

Target Price: EUR30.00
Current Price: EUR32.70
Up/downside: -8.3%
Market data: 20 November 2024

Bloomberg: DR0 GR	Reuters: DR0G.DE
Free float	90%
Avg. daily volume (EURm)	0.8
YTD abs performance	0.8%
52-week high/low (EUR)	44.90/29.90

Insights from CMD: Strategic shifts and adaptability

Key points:

- We attended Deutsche Rohstoff's capital markets day (CMD), where management provided valuable insights into the company's strategic direction, operational flexibility, and market outlook. Below we provide takeaways from the event.
- The group demonstrated its proactive and flexible strategy, including its approach to capex, operational adjustments, and strategic acquisitions, which positions it well to navigate market volatility. The key takeaway for us was that management is aiming to reduce average drilling costs to below USD10m by 2025, contingent on drilling locations, the oil price, and service provider availability, which is decisive for the size of next year's drilling programme.
- The group is confident going into 2025 but also shows willingness to be flexible, indicating that it would slow investments and production if the oil price is too low. While we remain confident in Deutsche Rohstoff's operational resilience and growth prospects, we reiterate our Reduce rating, given our bearish outlook on WTI price development, as under OPEC+'s current plan, we believe oil markets would be oversupplied by 1.8mb/d in 2025.

From Bright Rock to 1876, visions for the Powder River Basin, adaptability and growth

- **1876 Resources to be key operator:** Management has decided to transfer its Bright Rock acreage to 1876 Resources. The goal is for 1876 to operate all assets in the Powder River Basin. Combining these assets would result in a company with 65,000 acres, enabling much better planning and significant synergies. DRAG confirmed that 4-5 key personnel from Bright Rock's management team will remain with the company, ensuring continuity and leveraging Bright Rock's technical expertise.
- **Powder River Basin expansion:** Deutsche Rohstoff intends to continue drilling in the Powder River Basin, and the company continues to engage with Oxy for potential collaborations, although specifics remain open pending further developments.
- **M&A:** The group is actively exploring M&A opportunities, particularly in the gas market. With current low gas prices, management sees potential for attractive acquisitions.
- **Flexible investment approach:** The company finds it attractive to expand capex when oil prices exceed USD70 per barrel. If oil prices fall to USD50-60 per barrel, the company adopts a more cautious investment approach. Investments are significantly limited when prices drop below USD50 per barrel. Deutsche Rohstoff can significantly reduce or shut-in production if oil prices decline sharply, as demonstrated during the Covid-19 pandemic with minimal negative effects. To achieve an IRR of 15-20%, the company prefers oil prices above USD60 per barrel.
- **US election and regulatory environment:** The company maintains that its operations are relatively insulated from US political shifts, noting that regulatory environments have historically not been a significant bottleneck. However, a reduction in the corporate tax rate to 15% would positively impact the company's financials. Management remains confident that federal permits and approvals will continue, given the oil and gas industry's significance in regions like Wyoming.
- **Acquisition of leases and royalties:** The company acquires leases through federal unit purchases, federal lease auctions, and transactions. Leases typically have terms ranging from five to ten years, providing flexibility in development planning. Maintaining a working interest of 80-90% in its areas allows the company to consolidate operations and increase control over production.
- **Almonty:** Management also touched on its c. EUR30m stake in Almonty, the Canadian tungsten producer with mining rights in the South Korean Sangdong mine, one of the world's largest single-mine tungsten reserves. The potential increase in global trade disputes between the US and China after the US election as well as the beginning of tungsten production in the Sangdong mine coming closer could act as positive catalysts for the stock. Deutsche Rohstoff holds a c. 12% stake in Almonty.
- **No change to 2025 outlook:** Management maintained its positive outlook on the oil price in 2025, noting that development costs adjust with oil prices, indicating a flexible approach to capital allocation, given the sensitivity of the performance to WTI price volatility.

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Appendix 1: Research framework

Last model update: 31 October 2024

Investment case

- Deutsche Rohstoff AG’s strong operational performance in 2024 reinforces a positive long-term outlook. However, in light of our bearish outlook on WTI price development, we advise investors to sell their positions despite operational improvements.
- Assuming a c. 30% success rate for the acquired acreage in Wyoming’s Powder River Basin (+100 well locations), our play-by-play model suggests this could lead to a sustainable high production level for DRAG in the medium term.
- The minority stake in Almonty Industries, which is expected to ramp up production at one of the largest tungsten mines outside China in the coming years, should generate stable, long-term returns.

Catalysts

- Higher-than-assumed economic viability in Wyoming as well as efficiencies in drilling costs.
- Price movements in the WTI benchmark.
- Production start at Almonty's Sangdong mine in S. Korea.

Valuation Methodology

- Our valuation is based on an SOP of its oil & gas assets, Deutsche Rohstoff’s minority investments in metals, and its investment portfolio.
- We value the group's core oil and gas assets by US state using a 25-year NPV model with a 10% WACC.
- Under our current long-term WTI oil price assumption of USD56/bbl, our SOP points to a fair value of EUR30.

Risk to our rating

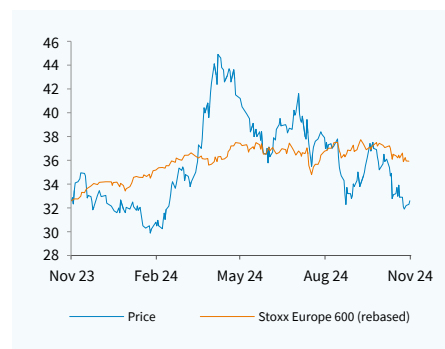
- Weaker-than-expected US dollar. Each USD0.1 move in our long-term EUR/USD assumption impacts our SOP by up to EUR6 per share.
- Lower demand leading to negative price movements in the WTI benchmark. Each USD2/bbl move in our long-term WTI oil price assumptions impacts our SOP by up to EUR2 per share.

Appendix 2: Company description

Deutsche Rohstoff is a Germany-based holding company that specialises in investing in resource projects. The current portfolio is mainly focused on the oil & gas sector, but it also holds minority stakes in high-tech metals such as tungsten. Its management team has longstanding expertise in the sector, and the group focuses on well-explored areas in the US.

Mgmt	Jan-Philipp Weitz, CEO Henning Döring, CFO
Ownership	Free float: 90.00% Management and Supervisory Board: 9.00%

Appendix 3: share price perf.



Appendix 4: SWOT analysis

Strengths

- Solid oil and gas asset portfolio with an extensive drilling pipeline.
- Diversified portfolio
- Expert management with experience in resource-based activities

Opportunities

- Efficiency gains in drilling could allow additional costs savings
- New land acquisitions
- Further increase in non-operative wells.

Weaknesses

- No control over non-operating wells
- Lower transparency compared to US oil and gas peers.
- The majority of mining investments are not producing yet.

Threats

- Price increases from field services companies leading to higher capex
- Direct competition from extractor Oil & Gas in land purchase.
- Euro/US dollar currency fluctuations, economic deterioration.

Appendix 5: Key financials

Last model update: 31 October 2024

Market data date: 20 November 2024

FY to 31/12 (EUR)	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24E	12/25E	12/26E
Income Statement (EURm)										
Sales	53.7	109.1	41.2	38.7	73.3	165.4	196.7	219.1	171.7	148.9
% Change	486.1%	103.0%	-62.2%	-6.1%	89.5%	125.6%	18.9%	11.4%	-21.6%	-13.3%
EBITDA adjusted	36.1	98.0	22.7	20.4	48.4	125.1	139.7	168.3	119.3	100.0
EBITDA adj. margin (%)	67.2%	89.8%	55.2%	52.8%	66.0%	75.6%	71.0%	76.8%	69.5%	67.2%
EBIT adjusted	5.3	32.7	5.6	-19.6	14.9	77.4	75.4	98.3	57.3	43.7
EBIT adj. margin (%)	9.9%	30.0%	13.7%	-50.8%	20.3%	46.8%	38.3%	44.8%	33.4%	29.3%
Net financial items & associates	-4.0	-6.2	-5.4	-6.4	-5.5	-5.5	-8.2	-10.3	-9.2	-8.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	6.4	-8.5	-0.1	6.4	-0.7	-19.8	-18.3	-22.0	-12.0	-8.9
Net profit from continuing operations	7.7	18.0	0.2	-16.1	26.4	66.2	67.5	66.0	36.1	26.7
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	7.7	18.0	0.2	-16.1	26.4	66.2	67.5	66.0	36.1	26.7
Net profit reported	5.5	13.9	0.3	-15.5	24.8	60.8	65.2	63.7	34.8	25.8
Net profit adjusted	5.5	13.9	0.3	-19.0	7.1	46.8	46.6	63.7	34.8	25.8
Cash Flow Statement (EURm)										
Levered post tax CF before capex	47.7	87.4	30.0	-11.3	78.5	148.4	164.4	142.8	78.7	72.3
Capex	-51.7	-66.2	-28.7	-36.8	-52.8	-88.9	-198.7	-172.2	-95.0	-79.5
Free cash flow	-4.0	21.2	1.3	-48.2	25.7	59.5	-34.3	-29.4	-16.3	-7.3
Acquisitions & divestments	0.0	0.0	0.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0
Dividend paid	-3.0	-3.2	-3.2	-0.5	0.0	-3.7	-6.7	-8.8	-7.4	-4.4
Others	-20.7	12.4	-28.2	6.3	-10.2	-19.5	17.9	-7.0	0.0	0.0
Change in net financial debt	27.6	-30.5	30.1	42.3	-15.5	-42.3	23.1	45.1	23.7	11.7
Balance Sheet (EURm)										
Intangible assets	33.8	16.9	22.1	21.9	29.8	33.9	23.5	23.5	23.5	23.5
Tangible assets	114.5	110.1	139.6	112.8	149.1	192.6	317.6	419.8	452.8	476.0
Financial & other non-current assets	24.0	36.3	42.1	50.3	43.8	40.7	36.9	36.9	36.9	36.9
Total shareholders' equity	56.7	73.8	71.5	45.6	80.1	132.4	187.5	237.7	266.4	288.7
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	156.9	151.0	207.4	161.1	184.9	218.0	306.3	317.3	288.8	273.4
Net debt	78.2	47.7	77.8	120.2	104.7	62.4	85.5	130.7	154.3	166.0
Net financial debt	78.2	47.7	77.8	120.2	104.7	62.4	85.5	130.7	154.3	166.0
IFRS 16 debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net working capital	-9.3	-22.4	-29.3	-11.9	-19.0	-39.6	-56.5	-57.8	-50.2	-45.0
Invested capital	108.5	89.3	111.9	102.2	131.3	154.2	262.1	363.0	403.6	432.0
Per share data (EUR)										
EPS adjusted	1.10	2.74	0.06	-3.74	1.40	9.35	9.31	12.97	7.09	5.25
EPS adj and fully diluted	1.10	2.74	0.06	-3.74	1.40	9.35	9.31	12.97	7.09	5.25
% Change	5328.9%	150.5%	-97.8%	-chg	+chg	569.6%	-0.4%	39.3%	-45.4%	-25.9%
EPS reported	1.10	2.74	0.06	-3.05	4.88	12.15	13.03	12.97	7.09	5.25
Cash flow per share	9.42	17.27	5.91	-2.23	15.44	29.67	32.87	29.07	16.03	14.71
Book value per share	9.73	12.99	12.66	7.76	14.31	25.78	36.05	46.48	52.06	56.42
Dividend per share	0.65	0.70	0.10	0.00	0.60	1.30	1.75	1.48	0.88	0.65
Number of shares, YE (m)	5.06	5.06	5.08	5.08	5.08	5.00	5.00	5.00	5.00	5.00
Ratios										
ROE (%)	10.5%	24.2%	0.5%	-36.6%	12.7%	46.4%	30.1%	31.2%	14.4%	9.7%
ROIC (%)	4.6%	24.8%	4.2%	-13.8%	9.6%	40.7%	27.2%	23.6%	11.2%	7.8%
ND(F+IFRS16) / EBITDA (x)	2.2	0.5	3.4	5.9	2.2	0.5	0.6	0.8	1.3	1.7
Gearing (%)	138.0%	64.7%	108.9%	263.6%	130.7%	47.2%	45.6%	55.0%	57.9%	57.5%
Valuation										
P/E adjusted	18.6	7.7	na	na	11.6	2.8	3.1	2.5	4.6	6.2
P/E adjusted and fully diluted	18.6	7.7	na	na	11.6	2.8	3.1	2.5	4.6	6.2
P/BV	2.1	1.6	1.3	1.2	1.1	1.0	0.8	0.7	0.6	0.6
P/CF	2.2	1.2	2.7	na	1.0	0.9	0.9	1.1	2.0	2.2
Dividend yield (%)	3.2%	3.3%	0.6%	0.0%	3.7%	4.9%	6.1%	4.5%	2.7%	2.0%
Dividend yield preference shares (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	-5.9%	16.0%	1.8%	-99.1%	29.3%	41.0%	-25.4%	-19.3%	-10.7%	-5.0%
EV/Sales	3.5	1.5	4.0	4.5	2.6	1.2	1.2	1.4	1.9	2.3
EV/EBITDA adj.	5.2	1.7	7.3	8.5	4.0	1.6	1.7	1.8	2.8	3.4
EV/EBIT adj.	35.6	5.0	29.4	na	13.0	2.6	3.1	3.1	5.7	7.8

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Rating Breakdown	A	B
Buy	54%	63%
Hold	34%	26%
Reduce	8%	5%
Not Rated/Under Review/Accept Offer	4%	6%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

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Deutsche Rohstoff (EUR)	29/01/2024 05:31	Equity Research	Buy	42.00	32.10
	15/04/2024 04:31	Equity Research	Buy	47.00	40.00
	25/04/2024 06:12	Equity Research	Buy	49.00	43.20
	26/04/2024 05:26	Equity Research	Buy	56.50	42.40
	31/10/2024 05:26	Equity Research	Reduce	30.00	34.90

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Local insight, European scale.



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